

January 13, 2010

Ms. Sherry Hazel  
AICPA  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

By e-mail: shazel@aicpa.org

**Re: Proposed Statements on Auditing Standards, Forming an Opinion and Reporting on Financial Statements; Modifications to the Opinion in the Independent Auditor's Report; and Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report**

Dear Ms. Hazel:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Auditing Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Robert N. Waxman, Chair of the Auditing Standards Committee at (212) 755-3400, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



David J. Moynihan  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON  
PROPOSED STATEMENTS ON AUDITING STANDARDS  
FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS;  
MODIFICATIONS TO THE OPINION IN THE INDEPENDENT  
AUDITOR'S REPORT;  
AND  
EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER  
PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**

**January 13, 2010**

**Principal Drafter**

**Fred R. Goldstein**

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William R. Lalli

**New York State Society of Certified Public Accountants**  
**Auditing Standards Committee**

**Comments on**

**Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements; Modifications to the Opinion in the Independent Auditor's Report; and Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on the AICPA Auditing Standards Board's (ASB) proposed Statement, *Forming an Opinion and Reporting on Financial Statements; Modifications to the Opinion in the Independent Auditor's Report; and Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

We generally agree with the content of these standards; however, we have identified a few matters which, in our opinion, require some clarification that follow our responses to the ASB's specifically solicited matters.

The following are our responses to the specifically solicited matters:

**Issues for Consideration**

***Form and Content of the Auditor's Report***

**The ASB is seeking specific comments on the form and content of the auditor's report in the proposed SAS, specifically related to the following areas:**

**1. Are the additions to the auditor's responsibility and management's responsibility sections of the auditor's report appropriate for users in the United States?**

Yes.

**2. Is the inclusion of section headings (for example *Report on Financial Statements, Management's Responsibility, Opinion, Report on Other Legal and Requirements*) helpful in the auditor's report?**

Yes.

**3. Do you anticipate any issues in practice arising from the proposed SAS requiring different, although similar, wording of the auditor's reports than that required by current PCAOB standards? Do you agree that the ASB's decision to converge with the ISA form of report is appropriate in the United States?**

We support the convergence with International Standards on Auditing, and believe that the format and language used in the proposed new wording for auditor reports for non-issuers would not create significant issues for accounting practitioners. However, in light of the “expectation gap” mentioned in the proposal, we believe that reports for non-issuers that are divergent from those issued by auditors of SEC issuers will be confusing to financial statement users, notwithstanding the ASB's belief that the wording is "similar."

In our view, the unfinished “Auditor’s Report Research Project” argues for the delay in converging with the International Standards and changing the auditor’s report at this time.

### ***Guide to Respondents***

#### **1. Are the auditor’s objectives appropriate?**

Yes.

#### **2. Are the revisions made to converge the existing standards with ISA Nos. 700, 705, 706, and 710 appropriate?**

Yes.

#### **3. Are the differences between the proposed SAS and ISA No. 700, 705, 706, and 710 identified in the exhibit, and other language changes, appropriate?**

Yes.

#### **4. Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?**

We believe that this issue is not applicable to this standard.

➤ ***Below are our comments concerning items that need further clarification:***

### **Forming an Opinion and Reporting on Financial Statements**

1. In the “Application and Other Explanatory Material,” Paragraph A18, concerning the “*Addressee*,” it states:

“The auditor’s report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. A report on financial statements of an unincorporated entity may be addressed as circumstances dictate,

for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.”

We believe that the report should be addressed to those charged with governance or shareholders (or both), except for situations described in the last sentence above. Accordingly, we suggest removal of the phrase “...to the entity whose financial statements are being audited or....”

### **Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report**

#### 1. In Appendix 1, *Illustrations of Auditor’s Reports with Emphasis of Matter or Other Matter Paragraph*

Exhibit 1 has an example of an auditor’s report with an *emphasis of matter* paragraph dealing with an uncertainty relating to “a pending exceptional litigation matter.” The example in the Exhibit has a section titled “*Qualified Opinion.*” This section should be labeled as “Opinion,” since the opinion is not qualified.

It would be useful to have another illustration provided in the Appendix in which the example presents an opinion qualified for GAAP or scope that is unrelated to the matter emphasized. Such an example would reinforce the fact that, as discussed in Paragraph A5 in the Applications Guidance, that an *emphasis of matter* paragraph is not a substitute for a qualified, adverse opinion or disclaimer of an opinion.

2. Paragraph A6 of the Application Guidance discusses the use of an *Other Matters* paragraph in circumstances in which an auditor is unable to withdraw from an engagement in situations where there is an inability to obtain sufficient appropriate audit evidence due to pervasive limitations on scope imposed by management. The Appendix should include an example of a report in those circumstances.

3. Exhibit 1 contains a list of SAS’s that require an *emphasis of a matter* paragraph. We believe that the Appendix should include an example of two of these items: *Going Concern* and *Consistency of Application of Generally Accepted Accounting Principles*. These examples can then be updated based on the final Going Concern standard currently being re-deliberated and in conjunction with the convergence and clarity related changes being made to AU 420, *Consistency of Application of Generally Accepted Accounting Principles*.

In the AICPA “Mapping Document” for AU Section 508, *Reports on Audited Financial Statements*, and related Interpretations, AU Section 9508 there are a number of references in the “Explanatory” column in which mention is made to “... is expected to be covered in proposed SAS to clarify AU section 420 (or AU 504 – Association with financial

statements).” As noted in our comment letter on the proposed suite of risk assessment standards dated May 6, 2009, we believe that the ASB should continue to insure that references to yet to be exposed standards are appropriately tracked, as well as those already exposed to insure that planned resolutions residing in other standards do take place.